

Auditor-General of South Africa

Dannhauser Municipality - Audit report 2014-15

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Dannhauser Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Dannhauser municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement, the statement of comparison of budget information with actual information and appropriation statement for the year then ended as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Dannhauser municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material debt impairments

8. As disclosed in note 5 to the financial statements, the municipality provided for impairment of receivables from exchange transactions amounting to R9, 96 million (2014: R9, 31 million) due to poor collection practices.

Additional matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

10. In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

11. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for basic service delivery and local economic and social development presented in the annual performance report of the municipality for the year ended 30 June 2015.
13. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
14. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting

principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. The material findings in respect of the selected objectives are as follows:

Local economic and social development

Usefulness of reported performance information

Indicators not well defined and verifiable

17. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 20% of the indicators were not well defined.
18. The processes and systems that produced the indicator/measure should be verifiable, as required by the FMPPI. A total of 20% of the indicators were not verifiable.
19. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes and slow response to findings raised by internal audit.

Reliability of reported performance information

20. The FMPPI requires municipality's to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This is due to the fact that proper indicator definitions were not used to predetermine the evidence and method of calculation for actual achievements.
21. I did not identify any material findings on the usefulness and reliability of the reported performance information for basic service delivery objective.

Additional matters

22. I draw attention to the following matters:

Achievement of planned targets

23. Refer to the annual performance report on pages xx to xx for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs 17 to 19 of this report.

Adjustment of material misstatements

24. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for basic service delivery and local economic and social development. As management subsequently corrected only some of the misstatements, I identified material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

25. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements, performance and annual report

26. The financial statements submitted for auditing were not prepared in all material respect in accordance with the requirements of section 122(1) (a) of the MFMA. Material misstatements of non-current assets, current assets, non-current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided, resulting in the financial statements receiving an unqualified audit opinion.

Internal control

27. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

28. The accounting did not exercise effective oversight over work of consultants. This resulted to material adjustments in the financial statements due to insufficient reviews as a result of late submission of assets by consultants.

Financial and performance management

29. Management also did not adequately prepare complete and accurate financial and performance reports and monitor compliance with legislation due to vacancies in finance unit.

Governance

30. The risk assessment processes and reviews were not adequate to ensure that key financial and performance risks were mitigated and responded to in good time by management.

Auditix General

Pietermaritzburg

27 November 2015



AUDITOR-GENERAL
SOUTH AFRICA

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